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Policy Paper

A Fresh Start for Procurement

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About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Throughout 2020 FSB Wales is speaking to businesses the length and breadth of Wales through our campaign *Our Business is Wales*. The conversation will be used to inform practical policy suggestions to improve the business environment for SMEs.

Introduction

Over the last decade, few policy areas have received as much attention as public procurement. It's widely accepted that procurement needs to be less about lowest cost and more about delivering value and policy approaches have changed to reflect this. Yet despite this change in emphasis, and numerous Welsh Government initiatives to try and shift the balance, comparatively little has changed in practice particularly for Wales' SMEs who often see themselves overlooked in favour of larger companies or companies from overseas, despite having a competitive offer.

Much of this comes down not to gross errors of policy, but rather to the practice of procurement and its delivery. Unfortunately, our approach to date has been too top down, and whilst a top down approach is important it alone cannot make things better.

The time is right to think about a fresh start for procurement. This paper sets out some ideas for change to allow this to happen.

What is procurement actually for?

Procurement policy starts from a simple premise – that of buying goods and services – and becomes more complicated as other policy aspirations are added. This has meant that in many respects procurement policy is seen as the answer to very many problems when in reality it can be a positive contributor to broader economic development, but not in itself the solution.

It is therefore important to begin with first principles on what procurement should do. For FSB Wales these are:

- Provide good value to the taxpayer
- Allow for competition in the market place
- Be fully transparent and accessible to all firms
- Serve as a mechanism to grow and increase the capability of smaller businesses

It is important to understand that good practice in this regard starts with ensuring the four principles above are present before moving towards further issues that can shape procurement policy in terms of the demand side, from the public sector and the supply side from the stock of businesses able to compete for contracts.

Once these principles are in place we can begin to develop what is meant properly by value. It is now well understood that cost and value are not the same and for FSB Wales we would see it as



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imperative that value in this regard includes the capacity to generate economic development opportunities.

Procurement as a process is at risk of becoming overcomplicated. It is vital that at its minimum procurement allows for good value for the taxpayer, is competitive and transparent.

Barriers for SMEs in Procurement

FSB has undertaken several pieces of research on issues surrounding procurement across the UK. For instance, our 2012 report [Local Procurement: Making the Most of Small Businesses](#) with the Centre for Local Economic Strategies identified that for every pound spent with a local SME roughly 63p is recycled in the local economy, vs 40p with a larger company. This displays the economic impact of buying local.

Despite this the research also found that:

- 60 per cent indicated that there were barriers to bidding for public sector contracts
- The tendering process is too long/costly (35%)
- FSB members are not always aware of the public sector contracts available (28%)
- They do not feel able to compete with larger suppliers (28%)
- The relevant eligibility criteria (e.g. level of turnover/relevant standards) tend to exclude them (27%)

More recently, our UK report [Unstacking the Deck](#) called for the UK Government to take action to improve local authority procurement. In particular, it highlighted the importance of issues such as providing feedback to companies that don't succeed in tenders, shifting towards dynamic purchasing systems rather than frameworks and encouraging the acceptance of comparable accreditations as practical means of reducing the barriers for SMEs.

Whilst the evidence base behind both of the above reports is likely to have changed and does not necessarily reflect practice in all parts of Wales, we believe there is more that can be done in this area as part of a proactive SME procurement policy.

The next Welsh Government should review the practice of procurement in Wales with a view to lifting the barriers to SMEs. In particular this should focus on:

- **Encouraging the use of Dynamic Purchasing Systems instead of framework contracts**
- **Ensure systematic feedback to unsuccessful bidders in tenders, in particular highlighting why the successful bidder won the contract**
- **Reducing barriers to SMEs through accepting comparable accreditations**

Supply and Demand: Two Sides of the Same Coin

Another issue often misunderstood in public procurement terms is to focus entirely on the demand side of the process. That is, to focus entirely on how the public sector constructs and construes its opportunities without considering the capacity and capability of firms in the market. It is assumed that the benefits from economic development from a procurement perspective can only be achieved by increasing the retention of spend by some arbitrary figure within the local economy.

Whilst such an approach can have value and is an important element of the overall picture, the real gains from an economic development perspective come when the procurement process



allows for the growth and development of more capable firms that are able to compete not just in their local market but in markets regionally, nationally and even globally.

- **Procurement is often perceived as an issue on the demand side only – in practice, the economic development benefits of procurement occur when we help create competitive and capable firms.**

In practice this means two things for public policy. Firstly that procurement creates an opportunity to identify and fill market voids. Furthermore, procurement provides the ability to increase capacity in existing firms by allowing for their growth.

To take the first issue of market voids; when the public sector goes to market for its products it often does so within a narrowly defined window. It presents its opportunities on Sell2Wales and once the tender period is up, it counts the contenders. Instead, an approach that looks at a market analysis first, before constructing the tender process would have benefits. This would clearly mark where there are voids in the local supply base that can them form part of an economic development conversation.

On the second issue, there may be firms that have the ability to deliver a product or service to public purchasers but require some support in terms of their business capacity in order to attain such a contract. Sometimes this can be by identifying new machinery, IP or processes to develop. Other times, it can be as simple as helping a firm into a better network of tier one suppliers, so they're products get more market exposure.

In this instance too, there is an economic development role to deliver firms that are competitive and capable of bidding for such work. Business Wales and the economic development teams of local authorities have a role to play in ensuring firms are well positioned to bid for any potential opportunities.

- **We would recommend Business Wales work with purchasing authorities to map supplier voids and to provide support to firms who could potentially fill such voids.**
- **It is crucial that local authority procurement teams are well connected to their economic development counterparts, to maximise the potential benefit of any contracts.**

A Practical Example: Covid-19

A practical example has recently taken place as a result of Covid-19. As the crisis emerged it was clear that existing supply chains to China for items such as PPE were vulnerable. To counteract this, the public sector and in particular the NHS has had to move quickly to develop new supply for items of PPE within Wales. This has meant working quickly and proactively with companies in Wales to deliver the products they need.

The result has been clear with scrubs, gowns and aprons all now being produced in Wales through Welsh contractors within the same price range as previous supplies from China. This shows what's possible. The challenge is to take this thinking in to new areas of supply. Can we do this with food, furniture, office supplies, and professional services? The experience on PPE shows we can, but only if the Welsh Government and broader public sector is willing to be proactive and see themselves as 'market makers' rather than passive participants.



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It's also crucial to note that 'bought in Wales' does not mean 'made in Wales'. Supply chains have varying models of distribution and supply. A market making policy would look behind the raw percentage figures and look at the companies that are supplying tier 1 contractors. Take food for example; Castell Howell is a Welsh success story. Yet do we know how much of their produce comes from Wales? By working with companies like Castell Howell we can understand the pressures of the sector better and start to fill voids further down the supply chain. This approach would also lead to greater resilience and reduce our dependency on single, larger suppliers by providing greater security of supply.

- **New practice has emerged on PPE supply chains as a result of Covid-19. This needs to be maintained and developed further.**
- **Welsh Government and the broader public sector need to move from seeing itself as a participant in the marketplace towards becoming 'market makers' by assessing voids and helping Welsh companies to fill them.**

Public Procurement Policy

The Welsh Government has been proactive in shaping procurement policy in Wales to respond to some of the concerns around cost versus value in the procurement process. Its Procurement Policy Statement from 2015 contained many goals and objectives that organisations of all kinds who want to see procurement have a socio-economic impact can support. Despite this, there remain several significant challenges in transforming the ambitions of policy into practice. These are:

- *An under-resourced procurement profession* – local authorities and the broader public sector is under significant financial pressure and this has led to a situation where the capacity to deliver best practice is severely curtailed. For instance, whilst FSB Wales would like to see contracts broken up into smaller portions to allow for SMEs to be involved in more opportunities, in practice practitioners are under pressure to deliver tenders in the fastest, cheapest way. This means the extra auditing and management cost of presenting SME friendly tenders goes by the wayside.
- *A lack of political imperative* – Whilst procurement is undoubtedly a political priority at the national level, its importance varies significantly with anchor institutions and public purchasing bodies. For instance, FSB Wales is aware of local authorities that are not able to account for their spend with SMEs or provide any serious analysis of its socio-economic benefit. At the other end of the spectrum some purchasers are implementing lots of best practice.
- *A lack of statutory underpinning* – Whilst current Welsh Government policy is informative and well-placed, it is not statutory in the way that Planning Policy Wales is with regards to the planning system. This therefore means that while purchasing bodies are encouraged to conform to best practice they are not mandated to do so. This makes achieving improvements difficult when there are a significant number of public bodies involved in procurement. In this respect, we could learn from the process of legislation undertaken in



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Scotland through the Procurement Reform (Scotland) Act 2014. The Scottish public sector produces annual reports on how the guidance is implemented, including spend analysis.¹

- *Poor data and spend analysis* – Too few purchasing authorities carry out proper spend analysis and present their data in such a way to allow for scrutiny. If we are to maximise the economic impact of spending we must understand better where spending currently goes and what size of firms are benefiting from that spend. FSB Wales would like to see spend analysis being included in some form of statutory guidance and included on a publically available dashboard. This is the approach recently taken by the Scottish Government following their procurement reform legislation.²

Whilst procurement policy is on the whole positive it falls down in implementation. To develop Wales' procurement approach further, the emphasis needs to be on implementation and delivery of procurement rather than the content of the policy.

- **The next Welsh Government should consider making statutory arrangements for procurement policy in Wales to support the development of domestic supply chains**
- **This should include statutory procurement policy guidance for Welsh public bodies and an appropriate auditing process to properly understand spend**
- **There needs to be greater collaboration across regional groupings of local government to boost procurement capacity and expertise**
- **More resource needs to be put in to supporting the procurement profession**
- **More resource also needs to be put on economic development, for instance through Business Wales, with the explicit aim of 'market making' interventions**

Anchor Institutions

By creating a conversation with anchor institutions on the issue of public value in procurement, we can begin to shift the dial on community wealth by ensuring competitive firms from Wales are able to sell their goods and services in to the broader public sector. In this respect, anchor institutions include large public sector employers that are rooted to an area, for instance local colleges, universities, the NHS, local authorities and other departments such as the DVLA in Swansea.

The next Welsh Government could also broaden its understanding of anchor institutions to large private sector anchors and also include non-devolved parts of the public sector in their engagement. FSB Wales has long argued that inward investment provides an opportunity to develop Wales-based supply chains through such a conversation. Indeed, this has begun to take place with nascent policies such as advertising opportunities at Aston Martin through Sell 2 Wales. This needs to be mainstreamed as part of the economic policy in Wales. We should support inward investment where it drives good opportunities for economic development, however we should anchor it by focusing on opportunities to leverage the Welsh supply chain.

¹ Scottish Government. 2019. *Annual Report on Procurement Activity in Scotland* [Online]. Available at: <https://www.gov.scot/publications/annual-report-procurement-activity-scotland-2019/pages/1/> (accessed 13th September 2019).

² Scottish Government. 2019. *Annual Report on Procurement Activity in Scotland* [Online]. Available at: <https://www.gov.scot/publications/annual-report-procurement-activity-scotland-2019/pages/1/> (accessed 13th September 2019).



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One means of doing this rests with the current Welsh Government's Economic Contract. The next Welsh Government could look to develop this further with a specific call to action for anchor institutions and large firms to encourage a commitment to developing their supply chain.

- **The next Welsh Government should develop a clear policy on inward investment that focuses on anchoring investors by developing their Welsh supply chain.**

Conclusion

This paper has made a number of suggestions around improving public procurement policy in Wales and crucially its delivery. The next Welsh Government will have an opportunity to learn from the challenges we have faced during the current Covid-19 crisis and apply that learning to create greater opportunities to grow companies in Wales. To do this, we need a fresh start for procurement policy.